

City of Norfolk Employees' Retirement System (NERS)

Audited Net Asset Value (NAV) Control for Comingled Funds

Definitions:

NERS Staff: Management Analyst I/II/III who has financial/accounting experience and has been properly trained to perform the NAV control.

NERS Management: Executive Director of Retirement, Director of Finance.

Scope: NERS has a large position in several comingled funds. NERS performs an annual reconciliation of the NAV recorded on the custodial books for each comingled fund and the NAV reflected in the most recent audited financial statements of each fund to ensure consistency in pricing thus ensuring NERS assets are accurately valued. The NERS custodian (State Street Bank) values these positions using the unit price based on the fund's NAV and outstanding units. NERS staff works with each respective fund to ensure delivery of audited financial statements and any necessary supporting documentation as soon as they are made available. Please see Table 1 below for the audited valuation date for each of the comingled funds that NERS currently holds.

NERS staff performs the reconciliation in an accurate timely matter after all necessary materials are collected. This ensures that the impact from any discrepancy can be remedied in a timely fashion. Should NERS staff identify a pricing discrepancy, NERS management will review and the custodian will be alerted at once. NERS staff/management will then work with the custodian and, if needed, financial advisors, to determine the cause of the discrepancy and any remediation steps necessary.

Control Steps:

- 1) NERS requests receipt of audited financials and supporting documentation from each fund manager on the date of disclosure for the valuation date in Table 1.

Table 1. Comingled Funds Audited Financials Valuation Date

| Fund | Valuation Date of Audited Financials |
|---|---|
| JPMCB Strategic Property Fund | 30-Sep |
| SSgA Russell 3000 Fund | 31-Dec |
| SSgA MSCI ACWI ex USA Non Lending Fund | 31-Dec |
| SSgA U.S. Aggregate Bond Index Non Lending Fund | 31-Dec |

| Fund | Valuation Date of Audited Financials |
|----------------------------|---|
| UBS Trumbull Fund | 31-Dec |
| PIMCO Short-Term Portfolio | 31-Mar |
| PIMCO AB Portfolio | 31-Mar |

- 2) NERS staff compiles all per unit NAVs from the audited financials into an excel workbook. NERS staff extracts a copy of the relevant page/pages from the audited financials for inclusion in the reconciliation packet.
- 3) NERS staff uses custodian trade sheets, provided to NERS on a monthly basis by State Street Bank, to collect the per unit price used to mark NERS's position for the relevant date. A screen shot of each fund's trade sheet will be saved as part of the reconciliation packet. NERS staff compares the custodial trade sheet unit price with the audited unit prices gathered in step #2.
- 4) NERS staff prepares a reconciliation packet to include a cover sheet summarizing the results of the reconciliation as well as the supporting trade sheet and audited financial documentation. NERS management reviews the reconciliation packet.
- 5) Should a discrepancy be found and verified by management's review, NERS immediately notifies the custodian and asks for all supporting documentation from the pricing team for the fund and date in question. NERS will then consult with the custodian and financial advisors as necessary to determine and/or document the discrepancy and cause (i.e. timing, liquidity, etc.). If the discrepancy is not the result of an error, the supporting documentation from the custodian will be included in the reconciliation packet.

If a discrepancy is deemed by NERS to be the result of an error, NERS notifies the custodian and requires immediate action to remedy the situation.

NERS will prepare and file a discrepancy report for each instance uncovered. The report will contain a description of the issue, including dates and amounts, a list of parties/contacts involved in remedying the issue and, the steps taken to fix the error. These reports will be stored and made available to all NERS staff/management to serve as a reference for future reconciliation and support.

- 6) NERS staff will review SOC1 report from State Street Bank (custodian) and determine whether there was an exception that affects the NERS portfolio. If an exception is disclosed NERS staff/management will work with the custodian to determine what measures have been/will be taken to remedy the situation.